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Is the New Political Economy Relevant to Developing Countries?

Ronald Findlay

Can the methods and spirit of the New Political Economy be used to explain common features of Third World experience -- such features as the extensive growth of government relative to the private sector, the intensity of trade restrictions and the import substitution syndrome, the urban bias of economic policy and resource allocation, and the heavy dependence on foreign capital?

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Protectionism and industrial regulation are two topics in which the interplay of politics and economics is so strong that one wonders why the intellectual merger between the two approaches — in the New Political Economy — has taken so long.

The literature of the New Political Economy largely postulates a framework of political institutions and behavior like those in the advanced industrial countries, especially the United States. The state is seen as passive, and the emphasis is on the activities of interest groups to get legislation favorable to themselves passed by political parties whose only concern is electoral success.

Most developing countries are ruled by military juntas or one-party dictatorships. One doesn't see in them the kind of equilibrium between contending interest groups that characterizes the New Political Economy.

Organized private interests in civil society can be said to emasculate the state in industrialized nations. In contrast, the state in developing countries disproportionately dominates (often represses) a weak and fragmented civil society (often in the interests of a minority that controls the bureaucratic apparatus).

Is the New Political Economy relevant in the Third World?

Yes, says Findlay.

Using the methods and spirit of the New Political Economy, one can develop a theory of the autonomous state, applying it to the conditions prevailing in different developing countries. Using this approach makes possible an explanation of several major features of Third World experience: the extensive growth of government relative to the private sector, the intensity of trade restrictions and the associated phenomenon of the import substitution syndrome, the urban bias of economic policy and resource allocation, and the degree of dependence on foreign capital.

After describing the emergence of the state in Western Europe and the contemporary Third World, Findlay presents an economic model of the state, in which he tries to integrate its productive and predatory features.

He applies the insights from that analysis to some simple general equilibrium models of trade theory, to consider the activities of a public sector within open economies in which trade taxes provide the main source of revenue.

He applies his analysis to Turkey (which went from surplus-maximizing traditional monarchy to developmental dictatorship), India (a successor state to a gunpowder empire), Africa (with its marketing boards), Latin America (whose diverse economies tend to go through three stages: oligarchy, populism, and bureaucratic-authoritarianism), and the four Far Eastern newly industrializing economies (Hong Kong, Korea, Singapore, and Taiwan, the star performers in development).

This paper is a product of the Macroeconomic Adjustment and Growth Division, Country Economics Department. Copies are available free from the World Bank, 1818 H Street NW, Washington DC 20433. Please contact Raquel Luz, room N11-057, extension 61588 (44 pages with figures).

Is the New Political Economy
Relevant to Developing Countries?*

by
Ronald Findlay

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THE NEW POLITICAL ECONOMY:

It's Explanatory Power as Related to LDCs

The term New Political Economy presumably refers to the extensive work done over the last two or three decades under a variety of names, prominent among which have been "public choice", "rent-seeking", "directly-unproductive profit-seeking activities" and, most recently, "new institutional economics". The pioneers have been Anthony Downs, Mancur Olson, James Buchanan, Gordon Tullock and Douglass North, whose work has attracted increasing attention from economists specializing in more traditional areas such as international trade and industrial organization. Protectionism and industrial regulation are two topics where the interplay of politics and economics is so strong that it is surprising how long it has taken for the intellectual merger between economic and political approaches to occur.[1]

For the most part this literature has postulated a framework of political institutions and behavior that corresponds to that of the advanced industrial countries and, even more specifically, to that prevailing in the contemporary United States. The "state" as such is passive and the emphasis is on the activities of interest groups to obtain legislation favorable to themselves through the intermediation of political parties whose only concern is with electoral success. Other work has been concerned with voting schemes and problems of constitutional design, which also presumes "pluralist" democracies of the Anglo-Saxon or Swiss type.

It is of course an unfortunate fact that most LDCs today are ruled by military juntas or one-party dictatorships of one kind or another, in none of which does it appear that economic policy is decided by the kind of equilibrium between contending interest groups that is such a prominent feature of the New Political Economy. The state tends to dominate "civil society", which is weak and fragmented in the LDCs, whereas the rich texture of organized private interests in civil society emasculates the state as an autonomous entity in the context of advanced industrial democracies. Hence, I suppose, the reason for Gerry Meier to raise the question with which this paper will be concerned, of whether or not the New Political Economy is relevant for the LDCs. My answer, in short, is going to be a resounding "yes", despite the fact just noted that most of the existing literature on the New Political Economy generally presumes political conditions vastly different from those prevailing in the typical LDC.

The basic reason for the positive position that I have taken on this question is that one can use the methods and the spirit of the New Political Economy to develop a theory of the autonomous state, which can then be applied to conditions prevailing in LDCs of different types. The use of this approach makes possible a parsimonious and hopefully credible explanation of several major features of Third World experience. These are the extensive growth of government relative to the private sector, the pervasiveness of "corruption" in varied forms, the intensity of trade restrictions and the associated phenomenon of the "import substitution syndrome", the "urban bias" of economic policy and resource allocation and the degree of dependence on foreign capital.

Since the notion of the "state" is going to be central for my argument the first section will be a brief survey and analysis of the emergence of the state in the experience of Western Europe and its nature and character in the contemporary Third World. The next section is an economic model of the state, which will attempt the task of integrating the "productive" and "predatory" aspects of this institution. The third section will apply the insights of this approach to the state to some simple general equilibrium models of the trade theory type which will consider the activities of a public sector within open economies in which trade taxes provide the main source of revenue. A final section will offer comments on the relations between the present analysis and recent work on the political economy of some selected countries that might be of general interest.

To avoid misunderstanding I should stress that the objective of this paper is strictly "positive" in nature, i.e. to present hypotheses and models based on the insights of the New Political Economy to see how far they can go towards being consistent with at least some of the major "stylized facts" of Third World experience. It is not intended as yet another diatribe against state intervention and in praise of the "magic of the market". The whole question of what is the appropriate role of the state in economic development, the "normative" issue, is left entirely aside, thought of course the analysis presented may hopefully have some relevant implications for any attempt to address it.

I. The Autonomy of the State

(i) "Bringing the State Back In" is the title of an interesting recent book edited by Theda Skocpol and others.[2] The common theme that Skocpol finds in much recent social science literature, and which is further emphasized in the papers of the edited volume, is the rediscovery by a number of authors, Marxists as well as "mainstream" scholars, of the "autonomy of the state", which makes it necessary to treat it as a dynamic independent force instead of as a passive agent of society at large and its various interest groups contending "horizontally", as in liberal pluralist theory, or as the "executive committee of the ruling class" as in vulgar Marxism. There are many theoretical avenues through which this issue of the autonomy of the state can be addressed, which are not only not mutually exclusive but which can possibly contribute to a wider understanding. Marxists, following Engels in Origin of the Family, Private Property and the State and Marx in his Eighteenth Brumaire of Louis Napoleon, look to situations in which class interests achieve something of a deadlock in their natural antagonism, leaving it open to a dynasty, dictator as ruling clique of some sort to pursue independent policies of aggrandizement that may diverge from the interests of each of the classes themselves, though of course a prudent ruler would be careful to play off one group against another by partial concessions and favors, Some of these autonomous "ends" might be the wealth and privileges of the ruling circles, military glory, or what is most likely in the modern world, an enlargement of the state's bureaucratic apparatus for its own sake. The sociological distinction between "latent" and "manifest" motives and objectives is of course crucial in this regard. "Economic development", "national security", "socialist construction" are all labels that have been used with greater or less sincerity but all of which operate at the "manifest" level. The task of the social scientist should be to penetrate these myths, while recognizing their force, and to reach into the "latent" core of individual or group self-interest that underlies them.[3]

Perhaps the most natural approach for an economist to the problem is in terms of the "principal-agent" framework. Thus whether one views the government as the agent of "the people", as in Locke or Rousseau, or of the "ruling class" only as in the cruder Marxian variant, the principal in both cases has the difficult problem of "monitoring" the activities of the agent to see whether or not they are in keeping with the implicit social contract that underlies both cases. The conventional principal-agent problem is of course enormously compounded by the fact that the "agent" in this case is empowered with the "monopoly of the use of force", that is necessary for the enforcement of the conventional types of contract between principals and agents. Once the people, or the bourgeoisie, or the proletariat appoint or accept a "guardian" then who is to guard them from the guardian? Recognition of this problem probably led Hobbes to his conception of the sovereign as necessarily absolute.

(ii) The "modern state" as we know it evolved in the West during the course of a millennium from the feudalism of the Carolingian empire, through the "ständestaat" and the absolutist state to the constitutional state of the nineteenth century, culminating in the universal suffrage and the welfare state of today.[4] Throughout this evolution the state at each phase was intimately involved with the evolution of civil society, both shaping and being shaped by it. Even in its most "primitive" form, the feudalism of the Middle Ages, it was marked by an acknowledgment of the limitations of the ruler in relation to his subjects. Lord and vassal both shared in the status of knighthood, and were therefore in one sense "equals" though of different degree in terms of circumstances and power. Magna Carta is the best known but by no means the only acknowledgement by a sovereign of the limits beyond which he could not encroach on the rights of his aristocratic vassals. The urban merchants and craftsmen in the rising towns of the Middle Ages were also able to secure rights and privileges for themselves in relation to the crown, in exchange for the financial assistance they were able to provide the monarchs in their struggles to pacify the unruly barons. The Church, furthermore, had always been a powerful institution whose vast landed wealth augmented its spiritual influence on civil society. Thus the Ständestaat or "Estate Society" was marked by a "dualism" of power between crown and estates, as Otto von Gierke emphasized.

Despite their appellation, the "absolutist" states of early modern Europe were constrained sharply by the historical circumstances within which they emerged, with its inherited structure of rights and privileges that the various segments of civil society enjoyed. Thus although the fact that the Estates General of France were not summoned between 1618 and 1789 is generally taken as indicating the power of the Bourbons to rule unhindered, the other side of the coin is that there were "no new taxes" that they could levy. They had to supplement the rising yield from the traditional taxes by a variety of expedients, such as the sale of offices, the farming of the tax revenues and of course the issue of public debt. All of these created trouble for the future since they were accompanied by the granting of exemptions and privileges to wider segments of society. The very efficiency of the Intendants, the royal officials who administered France, most of whom were a meritocracy of "new men", undermined the social basis of the Ancien Regime, as de Tocqueville pointed out, since it rendered the aristocracy superfluous as a "functional" class. The French Revolution continued the trend towards a more centralized administration but with the extension of civil rights to the "people" as a whole. In England the Whig oligarchy that ruled since 1689 gradually extended the franchise and reformed the electoral system in the nineteenth century.

The "modern state" can be thought of as a contrivance or invention of administrative technology, that is capable of being transferred or imported into societies that originally did not possess it. As it moved eastward in Europe, to the German principalities and Russia, it became more authoritarian in nature. The historian Mark Raeff (1983) has examined the concept of The Well-Ordered Police State in his fascinating book of the same name. In the German principalities, particularly Prussia, the rulers established bureaucracies that meticulously attempted to regulate civil society in the spheres of education and the economy in order to develop along more modern lines, which at that time of course meant imitating the French. This "diffusion" of the modern state worked relatively well in the German case despite its authoritarian character and legacy, since civil society itself was sufficiently developed to respond positively to the detailed regulations and intervention. In the case of Russia, however, the succession of "revolutions from above", from Peter the Great down to Mikhail Gorbachev, have yet to succeed in transforming civil society up to the western European level, despite the bloody sacrifices that have been imposed on the people in the attempt.

(iii) If the modern state, which attained its "ideal" form in post-Revolutionary France, was modified and distorted in its journey eastwards to Germany and Russia, it has certainly spawned an exotic new strain in its recent journey "south" to the formerly colonial territories that attained their independence in Asia and Africa in the aftermath of World War II. Particularly in the former British colonies, the modern constitutional state with its full panoply of checks and balances, privileges and safeguards was left behind lock, stock and barrel by the departing representatives of the crown, as the final culmination of decades if not centuries of "preparation for self-government", along with the new flags and national anthems. If the Western state took a millennium to develop from " feudal anarchy" to constitutionalism the Third World states have sadly given the impression, in many cases, of running the film backwards, at an accelerated rate that covers the same distance in less than half a century. While there are many notable exceptions to this gloomy spectacle it is fair to say that the record has on the whole been a rather dismal one, especially in the light of the wave of hope and enthusiasm that the national independence movements initially aroused.

Some conservative critics have said that the colonial powers left too soon, before their "civilizing mission" was fully accomplished. This argument is not convincing, particularly when one notes that the longer and harder the colonial power resisted the demand for independence the more violent and radical has been the regime that eventually took over. Another, more pernicious argument has been that Third World people do not share the values of individual freedom and civil liberty with the West, and are thus reverting to the meek acceptance of despotic rule with which they are familiar from their pre-colonial past. It is hard to maintain this view in the light of the dramatic popular protests in the Philippines, South Korea, Burma, Algeria and China that have all taken place recently.

What then is the problem? Why has not the modern constitutional state "taken" in its transplantation into the less developed world? The basic answer is that there is a disproportion in the Third World context between the state and the development of "civil society", such that the forms of the state are perverted into making it an instrument of repression of the mass of the people in the interests of a small minority that attain control of the bureaucratic apparatus. This minority is not defined, as in Marxism by its ownership or control of the means of production but by its control over the "means of administration", which ultimately consists of course in the effective monopoly of the use of force. The closest approximation to a Marxian "ruling class" view of the state is in parts of Central and South America, where land-owning elites exercise domination through political parties that closely represent their interests, backed by armies whose officer corps come from the same social stratum.

In their effort to characterize the Third World State social scientists have turned to Max Weber's typology of authority under the rubrics of "patrimonial", "charismatic" and "rational-legal". The first generation of nationalist leaders tended to be striking figures, such as Kemal, Nasser, Nehru, Nkrumah and others. These were natural candidates for the "charismatic" category, and indeed some of their achievements could perhaps only be accounted for in terms of the force of their personalities. Subsequent developments were also sought to be explained by Weber's notion of the "routinization of charisma". The explanatory power of this approach seems however to have faded along with the transient glories of the "modernizing dictator". A more illuminating application of Weber's categories is Christopher Clapham's (1985) concept of "neo-patrimonialism" as being the general underlying characteristic of Third World states. By this he means the use of modern rational-legal forms, i.e. impersonal "universalistic" systems and rules, for private "particularistic" purposes. A patrimonial ruler of the pure type would give gifts to his followers and kinsmen to cement their loyalty to him in his struggles with his opponents, these gifts coming out of his own personal resources, since such a system would lack any distinction between the private and public purse. A modern Third World leader, however, who wanted to perform essentially the same activity of rewarding followers and kinsmen would do so typically by assigning them jobs or import licenses or contracts that ostensibly ought to go only to those satisfying certain impersonal objective criteria of functional qualification.

Many widely noted aspects of Third World experience fall into place in in the light of this fruitful characterization. The pervasiveness of the state in the economy and society at large, and the extent and persistence of economic controls and regulations, become explicable as maximizing the "base" on which the neo-patrimonial ruler can reward himself and his followers. Admonitions by the IMF and World Bank, universal guardians of the "rational-legal" order in the economic sphere, to "get the prices right" will obviously be resisted directly or by a barrage of subterfuges. Negative external shocks will tend to be responded to by borrowing rather than "adjustment", since the latter would not only lead to a cut in present consumption of the ruling group but an erosion of its essential political support as well.

The more successful the neo-patrimonial state is in its predatory exactions on society, however, the less the "legitimacy" of the regime in the eyes of the people, since the more blatant will be the violation of the publicly proclaimed rational-legal norms. The response to this is typically political repression of varying degrees of severity, depending upon the magnitude of the perceived threat. Also, the more valuable the "prize" of the control of the state, the more intense will be the pressure of rival claimants, and so the regime will have to face the problem of how wide or narrow to make the coalition that enjoys the benefits of rule. Much of the politics of the Third World is concerned with the ebb and flow of these concessions and retractions to various segments of the society.

(iv) Despite its appeal as a characterization of Third World states the neo-patrimonial concept needs to be supplemented by some typology or classification of the scores of actual states that at present exist in Asia, Africa and Latin America, among which there is enormous variation in size, ideology and political organization, even if they all share the feature of neo-patrimonialism in some degree or other. Democracy and dictatorship is one axis along which they might be situated, and "market-oriented" versus "centrally planned" another, giving us four categories if each of these distinctions is applied dichotomously. I had hoped that the literature on comparative politics would have produced some usable classification but have not yet come across one. What follows is therefore a very rough and ready one of my own devising, which I will be very happy to discard if a superior alternative can be found.

1. Traditional Monarchies

There are a number of significant and interesting cases that can be placed in this category. One thinks readily of Saudi Arabia and the Gulf oil sheikdoms, Morocco and Jordan, as well as of Ethiopia under Haile Selassie. In each of these cases the ruler could claim legitimacy on the basis of the traditional authority of the institution of the monarchy and of the dynasty in particular. In Weber's terms they correspond more to his "patrimonial" category then to the modern mixture of this with rational-legal norms that Clapham stresses. Operationally the difference is that the extraction and redistribution of rents from the economy and society can be made more openly, with the sanction of royal authority, than under regimes in which this is done behind a facade of impersonal and objective rules. In other words the distinction between the public treasury and the private purse of the monarch is blurred.

2. Traditional Dictatorships

In this category I would place such states as Paraguay under Stroessner, the Dominican Republic under Trujillo, Cuba under Batista, Haiti under the Duvaliers, Nicaragua under Somoza and the Philippines under Marcos. These share with the monarchies the fact that they are based on absolute personal rule, but with the difference that they lack the legitimacy of the former. Their exploitation of their respective countries is more blatant and on a greater scale, not being tempered by the awareness of past and future obligation that constrains a royal dynasty. They also do not seriously espouse any ideology of national development and can perhaps best be described by the derogatory rubric of "kleptocracy".

The next two categories I shall distinguish are Right and Left-wing Authoritarian states. These states are either strictly one-party states, with no opposition parties allowed, or in which opposition parties have never been able to take power. The military play a dominant role, either directly or behind the scenes, in many of them.

3. Right-Wing Authoritarian States

In this category are Turkey and Egypt in the Islamic World; Argentina, Brazil, and Chile for most of their recent history, as well as Mexico in Latin America; Kenya, Nigeria, Ghana, the Ivory Coast and Malawi in Africa; and a number of states in East and South-East Asia including Korea, Taiwan, Singapore, Malaysia, Thailand and Indonesia. In some of these states such as Turkey and Thailand there has been a fair amount of democratic politics with political parties competing quite actively but in which the army defines "the narrow limits of the possible" for the political arena. There is generally market orientation in economic policy, but this is consistent either with protectionism and import substitution, as in Latin America, or with outward orientation as in much of East and South-East Asia. Corruption is on the whole much less than in the traditional dictatorships identified above, and national development is an explicit commitment of the army or ruling party that it genuinely attempts to promote, with varying degrees of success in different countries.

4. Left-Wing Authoritarian States

Here I would include the explicitly Communist states of China, North Korea, Vietnam and Cuba as well as Nicaragua under the Sandinistas and Ethiopia under Mengistu as close cousins; Algeria, Libya, Syria, Iraq, Tanzania, Angola and Mozambique in the Middle East and Africa; and Burma with its military socialism and one-party state as the only non-communist example in Asia of left-wing authoritarianism. State intervention and controls are much more pervasive in these states than in their right-wing counterparts, though many are attempting to experiment with greater reliance on markets, most notably China.

5. Democratic States

In this final category we have most prominently India, Sri Lanka, Venezuela, Costa Rica, Jamaica and the other former British West Indies islands, as well as Malta and Mauritius. In all of these states there have been peaceful transfers of state power determined by elections and a considerable freedom of civil society to modify the authority of the state by the threat of defeat at the polls. This, however, does not mean that the state power itself is weak or insignificant. On the contrary the role of the state is quite extensive, in production as well as in the scope for the disbursement of patronage.

II. An Economic Model of the State

Economists have traditionally not had much to say about the theory of the state. The view of the state that most commonly prevails in economics is of a "functional" or "instrumental" agency that performs the traditional tasks of providing public goods and off-setting externalities and other " market failures" by corrective taxes and subsidies. In so far as the state undertakes income redistribution through its tax and expenditure policy it is in relation to some ethically specified "social welfare function". In the tradition of Pigou and Meade the state is seen as a benevolent guardian of the public interest. Baumol's Welfare Economics and the Theory of the State is perhaps still the most explicit and thorough statement of this approach, even though it was written as early as 1952.

The "public choice" theorists, however, have taken a more cynical view of the state that sees it as a grasping monster, a Leviathan that extracts revenue from its subjects for the private interests and enjoyment of the individuals or groups in whom the power of rule adheres. Machiavelli and Hobbes, rather than Bentham and his modern disciples, are the inspiration of these writers. What I have not been able to find in the literature, however, is an approach that is flexible enough to handle the tension between these two aspects of the state, the "productive" and the "predatory". In the rest of this section I will present a model of the state that will attempt to accomplish this, in the simplest possible way. I will then relate this model to the general discussion of the role of the state in LDCs that was given in the previous section.[5]

The productive role of the state is expressed in this model by the hypothesis that public expenditure on administration, law and order, roads, justice and so on acts as an "externality" to private economic activities, enhancing the private output from private inputs. We thus treat public goods as "intermediate inputs" in the provision of final private goods rather than treating them as final goods in their own right.

This idea is embodied in the following simple formal structure. Let Y he "national income", a composite commodity for which the production function is

$$Y = A(L_g)\, F\,[\, L_p, \bar{K}\,] \qquad (1)$$

with

$$L_g + L_p = \bar{L} \qquad (2)$$

and

$$A'(L_g) > 0,\ A''(L_g) < 0,\ A(0) = 1 \quad (3)$$

where L_g and L_p are labor in government and private employment respectively. The function F is of the familiar neoclassical type and for simplicity is homogeneous of the first degree.

When $L_g = 0$ and therefore $A(0) = 1$ we get the level of output under anarchy or the Hobbesian "state of nature" in which $Y_0 = F[\bar{L},\bar{K}]$. As L_g is increased the marginal productivity of a worker will be higher in the public than in the private sector and so output will rise initially, but then it will decline after reaching a maximum when the condition

$$F A'(L_g) = A(L_g) F_L(L_p) \quad (4)$$

is met, in which the left hand side is the marginal product of labor in the public sector and the right hand side the marginal product of labor in the private sector. This condition determines the optimal allocation of labor L_g^* and L_p^* between the two sectors, that makes final output a maximum at Y*. The wages in the two sectors would obviously have to be equalized to achieve (4), and so the shadow price of labor in the public sector will be the marginal productivity of labor in the private sector. The optimal level of public expenditure wL_g^*, where w denotes the common wage, is then determined, and so a proportional tax rate $\tilde{t}$ can be calculated to satisfy

$$\tilde{t}\, Y^* = \tilde{w}\, L_g^* \quad (5)$$

$$\text{where } \tilde{w} = (1-\tilde{t})\, A(L_g^*)\, F_L(L_p^*) \quad (6)$$

Once state authority is vested in an autonomous ruler, however,there is no guarantee that he will bring society to this optimal allocation. If the ruler is conceived as "absolute" in the literal sense of the term, i.e. with no constraints at all on his ability to secure his will at the expense of society, he will indeed find it in his own interest to maximize Y by meeting condition (4) but he will then proceed to appropriate the entire surplus, $Y^* - Y_0$, above that obtainable by his subjects in the state of nature. Hobbes explicitly recognizes that there is nothing to prevent his absolute sovereign from proceeding in this fashion should he be so inclined. This makes it difficult for those like C.B. Macpherson (1962) who sought to regard Hobbes as the apostle of "possessive individualism" and a "bourgeois revolution".

As mentioned in the previous section, however, even the "absolutist" monarchs of early modern Europe did not have things all their own way to this extent, since they were constrained by historical precedents in the degree to which they could tax their subjects and otherwise violate private property rights. Let us suppose therefore that the monarch cannot raise the tax rate on output above some specified level, which we can take to be the $\tilde{t}$ of the "optimal" solution just obtained. In addition we assume that he cannot conscript labour, i.e. he has to pay any public employees the after-tax wage that they could earn in the private sector.

Under these circumstances a self-interested ruler would choose Lg so as to

$$\text{Maximize } S \equiv \tilde{t}\ A(Lg)\ F[Lp,\bar{K}] - (1-\tilde{t})\ A\ F_L\ Lg \tag{7}$$

subject to (2).

The necessary condition to achieve this is seen to be

$$\tilde{t}\,[FA'(L_g)-A(L_g)F_L] = (1-\tilde{t})[A(L_g)F_L+L_g\ \{A'(L_g)F_L-A(L_g)F_{LL}\}] \tag{8}$$

The left-hand side is the marginal gain in the surplus obtained by transferring a worker from the private to the public sector. The right-hand side is the marginal cost of doing this which is the rise in the cost of public employment. Surplus is maximized when these two magnitudes are equated. Since $F_{LL} < 0$ the right-hand side is positive and therefore

$$F\ A'(L_g) > A(L_g)\ F_L \tag{9}$$

which means that surplus is maximized when L_g is <u>less</u> than the optimal level. The surplus-maximizing ruler will provide less than the optimal level of public services since to increase L_g further would raise Y but reduce S. The situation is conveniently depicted in terms of Figure 1.-

The concave and convex functions in Figure 1 represent revenue and public expenditure respectively. The expenditure function is convex since the wage-rate is an increasing function of public expenditure because marginal labor productivity in the private sector rises with rising public employment. Surplus is the vertical distance between these functions at each value of L_g, and is maximized where the slopes of the two functions are equal, with L_g equal to OW, public expenditure equal to VW and surplus equal to UV. This surplus is available for the consumption of the ruler or for disposition in any other way that he sees fit. Public employment is thus <u>less</u> than the socially optimal level of OX, at which the final output Y is maximized.

An alternative possibility for an autonomous state is that it maximizes the level of public expenditure, subject only to the revenue constraint. This hypothesis is of course the one advanced by students of bureaucracy from Parkinson (1958) to Niskanen (1971). In this case public employment would expand to OZ and the surplus would be driven to zero, the point at which the two functions cross. Thus, instead of public services being too small as under the hypothesis of surplus maximization, they could be too large, as depicted in Figure 1, in the case of the bureaucratic hypothesis.

Notice that the state becomes analogous to an economy-wide firm in our model. The surplus maximizing "absolutist" state becomes like a "natural monopoly", while the bureaucratic case corresponds to the "sales maximization" hypothesis of the "divorce of ownership and control" in the modern corporation.

These two hypotheses of course only provide extreme polar cases. Any particular instance is likely to involve some level of public employment between OW and OZ and surplus between UV and zero. The surplus could be allocated to any purpose whatsoever, worthy causes like transfers to widows and orphans or "rents" to social parasites of various types. A "developmental" state could allocate it to public investment.

Thus far we have assuming that the tax rate and the labor supply are both exogenously given. It would clearly be desirable to extend the model in such a way that each of these is determined endogenously by the maximization process, along with all the other variables of the system.

In order to do this we first observe that for any tax rate and labor supply the model already defines a maximized level of surplus. Furthermore, it is readily seen that surplus is increased by a rise in either of these parameters. This enables us to define a family of iso-surplus contours

$$S = S(t,L) \tag{10}$$

$$S_t > 0, \; S_L > 0$$

as indicated by the curves SS^0, SS^* and SS' convex to the origin in Figure 2, along each of which the maximized level of surplus is constant.

Assume now that labor supply is not fixed but an increasing function of the after-tax wage rate. This gives rise to the concave frontier TT' depicted in Figure 2 which shows the trade-off to the state between the tax rate and the labor supply, upon which the revenue base depends, a higher tax-rate having a negative repercussion on the supply of labor and hence on the revenue base. Although intuitively plausible the frontier TT' has to be derived from the model itself, and this can be conveniently done by use of Figure 3.

The positively sloped curve AA' is simply the supply curve of labor as a function of the after-tax wage. The negatively sloped curve BB' shows the equilibrium after-tax wage corresponding to each level of labor supply, for a <u>given</u> tax-rate. Thus for any level of labor supply and the tax rate (which is constant at all points on BB') the model determines the surplus-maximizing allocation of labor between the public and private sectors and hence the equilibrium after-tax wage. An increase in the tax rate reduces the after-tax wage for each level of labor input and so shifts the BB' curve to the left, thus reducing the equilibrium labor supply. We have therefore shown why the frontier TT' in Figure 2 displays a negative relationship between the tax-rate and the labor supply. The tangency of

SS* with TT' in Figure 2 determines the equilibrium tax-rate t* and labor supply L* for the surplus-maximizing case.

The budget-maximizing "bureaucratic" version of the model can be solved in analogous fashion. Given the tax-rate and labor supply the model already determines the maximized budget level, so that we can define the iso-budget contours

$$B = B(t,L) \qquad (11)$$
$$\frac{\delta B}{\delta t} > 0 \, , \, \frac{\delta B}{\delta L} > 0$$

since the level of the budget is obviously an increasing function of the tax-rate and labor supplies as well. The frontier showing the labor supply as negatively related to the tax-rate can also readily he obtained in this case. The supply curve of labor as a positive function of the after-tax wage in Figure 3 is invariant to the nature of the maximizing hypothesis for the state. It is easy to see, however, that the negatively sloped "demand curve" for labor will lie to the right of the corresponding case for the surplus-maximizing hypothesis. This is because for any given tax-rate and labor input the demand for labor, and hence the after-tax wage, will be higher under the "bureaucratic" hypothesis, as we have already seen from Figure 1. This means that for any tax-rate the equilibrium supply of labor will be greater than under surplus maximization so that the frontier lies outside that of the previous case. The optimal point on the frontier is where it is tangential to the highest iso-budget contour, Thus the state "squeezes" more resources out of society under the bureaucratic than under the surplus-maximization hypothesis.

We can now link the two versions of the autonomous state analyzed in this section with the typology of LDC states presented in the previous section. The surplus maximization case would appear to correspond to the traditional monarchies and traditional dictatorships. The ruler in the first case has his legitimacy conferred by right of dynastic succession while in the second his authority over civil society is sufficiently strong for him not to have to bother with an extensive apparatus of control. In both cases, therefore, it would seen that there could be limited government in the sense of resource-using public services, but with a considerable margin between revenue and the cost of public services, which is available for the enjoyment of the ruler and those on whom he chooses to confer special favor or buy off with bribes.

The authoritarian states, on the other hand, are dominated by armies or parties that need to justify their rule over society by the apparent execution of grandiose tasks, for which they would seek to maximize the available budgetary resources. While key personnel would no doubt live well these would tend to be officially sanctioned "perks", rather than simple graft, though the line may be hard to draw in many cases.

Democratic states do not really fit into the model since in this case the levels of public revenue and public expenditure (in the resource-using sense), as well as who benefits from transfer payments, are determined by electoral competition. The situation is thus "oligopolistic" rather than "monopolistic", as in our simple model. In this case the more standard approach of the New Political Economy comes into its own and we have nothing specific to add here.

III. Factor Proportions, Trade Taxes and the State

In this section we will apply the hypotheses regarding the behavior of the state that have been discussed in the previous section to models of a "typical" LDC economy to see whether they can generate outcomes that are consistent with the "stylized facts" of LDC experience. Since the vast majority of LDC's are highly open economies we will naturally stress the relationship between the fiscal behavior of the state and international trade and capital movements.

(i) A Viner-Ricardo Model

In this well-known model there is a primary sector producing output as a function of labor and a "specific" input called "land", but which can of course be thought of as a natural resource of any kind, and a manufacturing sector that produces output with labor and another specific input called "capital", which may be either exogenously fixed or internationally mobile as a function of the rate of return obtainable. Both sectors compete for the same homogeneous labor pool. Relative prices of the two goods are fixed on world markets but are of course internally variable as a result of state policy.

To begin with let us suppose that capital is perfectly mobile internationally at an exogenous rate of return $\bar{r}$. Assuming constant returns to scale in the production function for manufacturing this means that

$$f'(k_m) = \bar{r} \tag{12}$$

where k_m is the capital-labor ratio and $f'(k_m)$ is the marginal productivity of capital. From (1) it follows that

$$f(k_m) - f'(k_m)\, k_m = w \tag{13}$$

The externally fixed $\bar{r}$ thus determines k_m and the real wage w in terms of manufactures for the LDC. The allocation of the fixed labor pool between the two sectors is determined by

$$\bar{p}\,[g(q_a) - g'(q_a)\, q_a] = w \tag{14}$$

where $g(q_a)$ is output per worker in the agricultural or primary sector, q_a is the land-labor ratio in the sector and $\bar{p}$ is the exogenously given world price ratio of the two goods. Since the total supply of "land", specific to the primary sector, is fixed, q_a depends only on employment L_a in that sector. We also have

$$L_a + L_m = \bar{L} \tag{15}$$

and since L_a is uniquely determined by (14) we also uniquely determine L_m. Since k_m is determined by (12) we therefore also know the endogenous capital input K_m. This is divided between an initially fixed domestic component K_m^d and the foreign capital inflow K_m^f which is

$$K_m^f = K_m - K_m^d \tag{16}$$

National income would be

$$Y = w\,\bar{L} + r\,\bar{K}_m^d + \bar{p}\,g'(q_a)\,q_a\,L_a \tag{17}$$

where the first term is total wages, the second is profits of domestically owned capital and the third is the natural resource rents of the primary sector. Since the economy is "small" in world markets Y represents the maximum income that domestic residents can obtain and therefore corresponds to the socially optimal level, if distributive problems are either ignored or taken care of by the usual fiction of non-distortionary "lump sum" transfers.

Into this idyllic "first best" world we now introduce, like a serpent in the garden, the "autonomous" state. While the previous section has stressed the "productive" role of the state, despite its perversion to "predatory" ends, in this section we will simplify by assuming either that there is already a pool of resources set aside for public use, at a level just sufficient to sustain private activity at the optimal level, or more blatantly by just ignoring that aspect of the problem here since it is irrelevant to the present objective.

We will assume, with good reason, that the state finds it most convenient to tax trade, rather than wealth or incomes directly. There is ample evidence that public finances in the Third World do just this. Since we are ignoring productive public expenditure maximizing surplus and maximizing revenue are now equivalent. It is instructive to consider the popular device of a "marketing board" to tax the resource-intensive primary sector which is the source of the country's exports and foreign exchange earnings.

The impact of a revenue-maximizing marketing board on the economy is illustrated in Figure 4. The horizontal axis measures employment in the primary sector and the vertical axis is used to indicate the wage and marginal product of labor in this sector, evaluated at the world price $\bar{p}$ in terms of manufactures. The distance OW indicates the wage and the line AV is the marginal productivity curve of labor in the primary sector (drawn as linear for convenience of exposition). Employment is equal to OG, the rent from natural resources is the triangle AWV and OWVG is the wage -bill in the primary sector.

The marketing board acting as a maximizing monopsonist drives a wedge equal to ST between the world and domestic prices of the primary export, T being the point at which the horizontal wage line is intersected by the line AT which is the marginal revenue product curve. The maximum revenue of the marketing board is the area of the rectangle UWST. The rents to private citizens in the primary sector fall to the triangle AUS, while the triangle STV is the deadweight loss to the economy as a whole from the restrictive policies of the marketing board. Employment in the primary sector contracts to OF, so that FG workers are released to the manufacturing sector. Additional foreign capital will flow in to employ these workers, who will earn the same wage as before. The returns to capital, however, will not be a part of national income since they will accrue to the foreign owners. The economy has become (a) more industrialized, since the primary sector contracts and manufacturing expands (b) more dependent on foreign capital because of the additional induced inflow (c) less well off than before because of the net loss of real national income equal to the area of the triangle STV (d) restricted in its trade since the contraction of primary output is at the expense of exports, so that imports must decline as well because of the decline in net foreign earnings.

What does the state do with its revenue? There are a number of possibilities. First, it could simply be enjoyed as the private income of a traditional monarch or dictator, if we have the first two types of state that we considered in the previous section. Swiss bank accounts, luxury imports, construction of monuments using some of the released labor are all possible uses of the surplus each of which can be amply illustrated by recent and contemporary Third World examples.

Alternatively, if the state is of a more modern authoritarian type of either the left or the right, there could be the establishment of a public bureaucracy that perhaps enhances the productivity of the economy to some extent but which is more likely to be largely parasitic on the civil society, engaging itself on phantom tasks defined in terms of those old standbys such as national unity or security, development and so on. Wages in the public sector could be above market levels, to reward friends and favorites or simply to create commitments and dependence on the regime.

Another effect of the "squeeze" on agricultural rents is that the price of the product is lowered to domestic consumers, an effect which is particularly important when the primary product is a food staple, such as rice in South East Asia or beef and wheat in Argentina. The state could, of course, charge the world price to domestic consumers and thus maximize its returns from exports to the world market. There would be administrative difficulties, however, and besides there is the substantial political benefit of providing a subsidy to urban dwellers, the likeliest source of visible opposition to the regime. Thus in virtually all known cases the benefit of the squeeze on the primary sector is passed on to the domestic consumers as an implicit or even explicit subsidy.

The model is easily adapted to the case of no capital mobility at all, or of the foreign capital inflow being an increasing function of the rate of return that is obtainable in the economy. In both cases the rate of return becomes an endogenous variable, along with the foreign capital inflow in the latter case. The tax on the primary sector will result in a diversion of the labor force into manufacturing, raising the rate of return and the inflow of foreign capital into that sector. Domestic as well as foreign capitalists are indirect beneficiaries of the squeeze on the primary sector. Thus the state would get an additional payoff from the goodwill that this generates, which can of course be converted into revenue or private connections between functionaries and the relevant firms. Foreign and domestic capital interact in complex ways, some competitive and some complementary. The state can mediate these relationships to serve its "own" purpose as well as the private interests of those who rule in its name.

Finally, the state could use the revenue that it obtains for accumulation of capital in new state-owned enterprises. While these may originally be set up as "statutory boards" to be run on commercial principles they can soon become subject to use for "political" purposes as rewards to the members of the ruling elite or as bribes to potentially threatening outsiders which may include army officers if these are not already in the inner circle. A new "bureaucratic-bourgeoisie" can be built up in this way, some of whom could establish private enterprises out of the rents that they initially obtained from the state.

(ii) A Heckscher-Ohlin Model

Similar implications can be derived from a Heckscher-Ohlin model, with a state that maximizes its budget in Parkinson-Niskanen fashion. We assume a two-factor, two-good "small" open economy, with fixed endowments of capital and labor. The export good is labor-intensive and the import-competing good capital-intensive. Revenue comes from the proceeds of a tariff, the level of which is to be determined endogenously, along with the level of public employment.

Since the world price-ratio is fixed the domestic price-ratio is uniquely determined by the level of the tariff. This domestic price-ratio in turn, by the Stolper-Samuelson theorem, uniquely determines the real wage and return to capital. Since imports are capital-intensive the higher the tariff the lower the real wage and the higher the return to capital.

The government's problem is to choose the tariff rate, t, and the level of public employment, Lg, in such a way as to

Maximize $w(t)\ Lg$

Subject to

$w(t)\ Lg \leq t\ p^{*}\ M\ \{\ (1+t)\ p^{*}, Lg\}$

where p^{*} is the world price-ratio, M is the level of imports and w(t) is the wage-rate which is a negative function of t. The level of imports varies negatively with the domestic price-ratio, which is equal to $(1+t)\ p^{*}$. It also depends on Lg, since employment in the public sector withdraws labor from the production of the two tradable goods. With the capital stock fixed, more public employment reduces the labor force in the tradable sector, and hence by the Rybezynski theorem increases the output of the capital-intensive import-competing good, and therefore reduces the level of imports and hence tariff revenue as well.

The solution of the problem is indicated in Figure 5. The concave frontier FF' shows the maximum feasible w(t) for any given value of Lg. Suppose Lg at some positive level and the tariff t at zero. The wage w(t) would then be at its maximum free-trade level but revenue would be zero, so that the government budget constraint would be violated. As the tariff is increased w(t) will fall, so that expenditure is reduced, and revenue will be increased. Thus corresponding to the given value of Lg we can find a tariff t and hence a wage-rate w(t) at which the budget constraint is satisfied with equality. A higher value of Lg will involve a lower revenue for a given value of t, since the volume of imports will be lower. Hence we must have a higher tariff, and thus a lower wage-rate, at a higher level of public employment. This explains why FF' is negatively sloped.

The objective function w(t) Lg can be represented in Figure 5 by a family of rectangular hyperbolas. The optimal point α is where FF' is tangential to the highest of these, yielding the optimal values $w(t^*)$ and L_g^*.

Our hypothesis of a budget-maximizing bureaucratic regime has thus determined the tariff level endogenously, along with the size of the public sector itself in the setting of a small open economy. More standard models of endogenous tariffs, such as Findlay and Wellisz (1982) and Mayer (1984), postulate democratic pluralist regimes, less consistent with Third World reality and are therefore more suited to conditions in the advanced countries. The model presented here is a refinement of an earlier version contained in Section II of Findlay and Wellisz (1983). This model points to the possibilities of a "bureaucratic-capitalist" alliance, that has often been noted in the Latin American context and which will be elaborated upon in the potentially richer model in the next section.

(iii) An "Australian" Model

Finally let us consider a model that neatly combines Viner-Ricardo and Heckscher-Ohlin features. This model can be found in a paper by Fred Gruen and Max Corden (1970) and is also used to good effect in Anne Krueger's (1977) Graham Lecture. The Australian connection of all three authors is responsible for the appellation that I have given it.

Suppose we have two sectors, a primary sector and a manufacturing sector, but while the primary sector continues to produce a single good, using "land" and labor, manufacturing is now differentiated between capital-intensive and labor-intensive goods, both using capital and labor. Thus labor is used in all three, capital in two and land only in one of the goods that are produced. All endowments are given and relative prices, as before, are determined exogenously on world markets. In the absence of state intervention suppose that technology, preferences and endowments are such that the economy exports the primary good and the labor-intensive industrial good and imports the capital-intensive good.

Since the industrial sector has a Heckscher-Ohlin specification the relative price of the two industrial goods on the world market would determine the return to capital and the real wage. Let us say that the numeraire is the labor-intensive good. With the price of the primary export also given in terms of the numeraire it is apparent that employment in the primary sector, and hence rent and output, are all determined by the equality of the marginal product of labor with the real wage. This gives the labor force for the industrial sector and hence the production levels of both goods produced by that sector. National income as well as both relative prices now being given, domestic consumption of each good can also be determined and hence the volume of trade in all three goods.

One of the most interesting feature of this model, from a political economy standpoint, is that it is possible for a tariff on industrial imports to benefit landowners. To see this consider a tariff on the import of the capital-intensive good. By the Stolper-Samuelson theorem again the real wage will be lower, while the price of the primary good will be unchanged, both in terms of the numeraire. Thus the effect will be to increase employment, and hence rents, in the primary sector. All agents in the model will be worse off as consumers, because of the distortion in domestic prices caused by the tariff, but it is clearly possible for landowners to gain on a net basis. Thus both capitalists and landowners can gain as a result of a tariff on capital-intensive imports, while workers of course are definitely worse off.

An export tax on agriculture, or the pricing policies of a marketing board, clearly depresses the returns to this sector and reduces the level of employment within it. The influx of labor to the industrial sector would, however, increase the output of labor-intensive goods, while reducing the output of capital-intensive goods. Real wages remain unchanged in terms of the manufactured goods but they rise in terms of the primary good, since the internal price of that good has fallen as a result of the policy of taxing agriculture. The decline in output of capital-intensive goods would also be accompanied by an increase in imports. Protectionist interests in industry, together with the ever-present thirst for revenue on the part of the state could lead to imposition of, or a rise in, tariffs on capital-intensive imports. This would off-set at least part of the increase in real wages of the workers and produce a rise in the return to capital.

The scenario of the previous paragraph has considerable relevance to the case of Argentina.[6] That country in its heyday was an "agro-export oligarchy" in which the expansion of the grain and beef exports produced by the fertile pampas created one of the most prosperous societies in the entire Southern hemisphere. Politics was dominated by the rich landowners and the professional urban middle class that arose as an off-shoot of this group. Workers, who tended to be recently arrived immigrants from Italy and Spain, did not succeed in entering the political arena significantly, since the anarchist and syndicalist parties that attempted to represent them were crushed by armed forces that reflected the domination of the rural magnates and the urban bourgeoisie. The difficulties caused by the depression of the thirties resulted in military intervention of a conservative, and even reactionary character. The adverse shift of the terms of trade, and isolation during the second world war, stimulated the development of urban industry and thus expanded the very class that was kept out of the political system.

This situation provided a clear opportunity for someone to capitalize on by mobilizing this latent political base. The opportunity was seized by Juan Peron in 1946. Though his personal rule ended in 1956 Peronism has become a permanent feature of Argentine political life, the latest chapter of which has just opened with the victory at the polls of Carlos Menem. The formula for Peronism was to squeeze the primary sector by taxes and price controls that simultaneously provided revenue to the state, lowered the cost of living of the workers since grain and beef were such important components of their consumption baskets and also enabled the regime to gain credit by opposing the landed "oligarchy" in the interest of the common man. Nationalization and an expanding bureaucracy could also keep the urban middle class happy by providing career opportunities in the expanded realm of the state. Combined with the charisma of Evita Peron the formula was clearly extraordinarily effective.

The losers, however, particularly the landowners and associated sections of the army as well as financial and industrial interests were never defeated outright and were able to mount effective resistance, particularly when the excesses of the Peronists combined with unfavorable external developments produced crises. This would bring waves of economic liberalization combined with political repression, since the attempts to revive lagging primary exports through higher relative prices were resisted by workers anxious to preserve their real wages. The Peronist defeat of 1956 led to several orthodox stabilization and liberalization attempts by Frondizi, Illia, Ongania and others which in turn led to collapse and the return of Peronism in the early seventies. The ensuing chaos led again to a military regime and the orthodox liberalization measures, which again failed. Like his Radical party predecessors Frondizi and Illia, Raul Alfonsin was not able to defeat Peronism at the polls by providing a workable economic framework and the stage is apparently set for yet another turn of the wheel.

IV. Some Particular Experiences

In this final section we attempt to complement the somewhat abstract character of the analysis with some observations on experiences in different countries and regions of the world. There is no particular principle underlying the choices made, which have been dictated partly by the availability of relevant literature.

(i) Turkey

The case of Turkey is a particularly interesting one in the political economy of development. Among other reasons this is because of her early experience with a "developmental dictatorship" under Mustapha Kemal Ataturk during the inter-war years, providing a preview of many recent Third World scenarios of development. My discussion is heavily indebted to the excellent historical study by Keyder (1987).

The original system of the Ottoman empire fits into our model of a "surplus-maximizing" traditional monarchy, with the surplus shared between the monarch himself and the class of state functionaries that administered the system. Unlike Europe of the Old Regime or Latin America there was no class of large landowners, the soil being mainly worked by peasants who were heavily taxed. Turkey was drawn into the great expansion of world trade from 1870 to 1914 as an exporter of primary products, with Greek and Armenian merchants playing the role of intermediaries between the world market and the Turkish peasant producers. Needless to say the state was not slow to take the opportunity to substantially increase its revenue, thus leading to an enhancement of the traditional domination of the bureaucracy in Turkish society. The "alien" merchant community was certainly not able to challenge this hegemony. The ravages of World War I and the associated conflicts with the Greeks and Armenians led to the almost total disappearance of the merchant community as a result of persecution and flight. The twenties saw a continuation of agricultural exports under the new regime of Kemal.

The situation was drastically altered by the impact of the Great Depression. Relative prices turned very sharply against agriculture and the stimulus to industry that this offered was enhanced by import restrictions. A new class of Turkish industrialists emerged, in close association with the bureaucracy. The two forces merged in the policy of "etatism" that characterized Turkey from this period on. The inspiration came from Mussolini's "corporate" state. The pattern of industrialization was of the familiar import substitution type, with the boards of the large banks and productive enterprises containing heavy representation of the bureaucracy, many of whom also directly entered the field of industry. Civil liberties were suppressed and a firm alliance of "state and capital" was achieved, with a squeeze on the agricultural sector and the working class. The situation thus corresponds to the models of the previous section of this paper, with relative prices turned against land and labor in favor of profits and state revenue.

The one-parity state was abolished and a democratic system established in 1946 which eventually led to the victory of Menderes and his Democratic Party in 1950. This liberalization of the polity was also accompanied by economic changes that turned in the direction of market- oriented policies. Combined with the boom in primary product prices this led to prosperity of the small cultivator class, who were also an important constituency for the competing parties. US foreign aid and political influence also worked significantly, and perhaps even crucially, in bringing about the new configuration. The bureaucracy lost some of its primacy over economy and society. The external environment however eventually turned unfavorable and the attempt by Menderes to sustain growth through inflation led to disruption that triggered a military coup in 1960 that restored civilian rule eventually but with a new program of import-substituting industrialization, with the bureaucracy back in full force with a plethora of planning agencies that allocated scarce inputs, particularly foreign exchange, with the predictable "rent-seeking" consequences. In fact Anne Krueger's (1974) original article appears to have been based on her experience of working in Turkey. Buoyed by foreign aid and the large inflow of remittances from the flood of Turkish workers to Western Europe, the system expanded until it was brought to a crisis by the oil shocks and associated world recession. Violence erupted within civil society between the extreme right and left, leading to military intervention in 1980. Since then there has been success with outward-looking policies leading to a rapid growth of manufactured exports. It remains to the seen, however, whether "bureaucratic authoritarianism" in Turkey will follow the East Asian rather than the Latin American pattern.

(ii) India

India, like Turkey and Iran, is a successor state to the three great "gunpowder empires" of the Ottomans, Safavids and Mughals. The long British colonial interlude modernized the traditional bureaucratic system and left a democratic parliamentary regime as its legacy. The question therefore arises as to whether the modern Indian polity functions as an "autonomous" centralized state insulated from the pressures of civil society or whether it is best looked upon as a pluralistic democracy of the Western type, distinguished only by a lower standard of living from its Western European and North American counterparts.

Bardhan (1984), in a brief but stimulating study of the political economy of Indian development, begins with the hypothesis of the relative autonomy of the post-colonial state, building on the heritage of the Mughals and the scarcely less imperial British viceroys. He points out that the Nehru generation's authority, derived from its leadership of the independence struggle, enabled the Indian state initially to impose a particular pattern of development, stressing the role of the public sector in bringing about a "socialistic pattern of society" while raising per capita incomes. He argues, however, that the subsequent generations of the Nehru dynasty have increasingly yielded to pressures from three main groups -- big industrialists and the bureaucracy in the cities and large farmers in the rural areas. The result, although Bardhan does not draw this conclusion, seems to me to be hardly distinguishable from the kind of "churning" redistributive state that we are familiar with in the more developed countries.

The combination of an extremely extensive role for the state, with sweeping control over finance, industry, transport and trade, together with an "open" polity that is subject to lobbying pressures from almost any organized interest group has resulted in disappointing growth performance over the last two decades, despite some successes in agriculture. The "surplus" has tended to be frittered away in subsidies to farmers and inefficient state enterprises, while an expanding bureaucracy continues its lucrative hegemony over a labyrinthine maze of regulations and controls. No substantial free enterprise coalition has been able to form to push back the frontiers of the state from its control over key sectors, while the bureaucracy is always able to undermine tentative attempts by the leadership to liberalize the system. The dependence of the ruling party on contributions from "rent-seeking" lobbies also imparts stability to the existing structure. Gunnar Myrdal's well-known complaint about the "soft state" in India is related to this tendency to be unable to insulate itself from these intrusions and to pursue its "higher" developmental objectives.[7]

Despite all these disappointments about India not fulfilling the outstanding potential for development provided by her entrepreneurs and diverse base of human capital, it remains a remarkable achievement to have maintained such a vibrant and stable democratic regime for so long when so many of her neighbors have fallen into dictatorial rule.

(iii) Africa

The model of a marketing board in a Viner-Ricardo economy presented earlier fits African experience remarkably well.[8] The institution of the marketing board, particularly in West Africa, owed its origin to the colonial regimes which built up large surpluses from their operation during the Second World War and the period preceding independence. In the case of cash crops such as cocoa, coffee, sugar, sisal, groundnuts and so on, and in particular when the producers are peasant small holders, they are natural victims of the predatory state that we have analyzed. Our general equilibrium model also simultaneously accounts for the induced bias in favor of urban industry and capital, as well as for the diversion of the rents to the ruling elite, popularly known as the WaBenzi, the Mercedes-Benz tribe, in much of Africa.

The "exceptions which prove the rule" are also interesting to note, the Ivory Coast and Kenya. In both these states an indigenous planter class was an important part of the independence movement that took over power. Felix Houphouet-Boigny, in fact, was co-founder and president of the Syndicat Agricole Africain, an organization devoted to the interests of indigenous planters, many of whom were from his tribe, the Baoulé.[9] It is therefore not surprising that in these cases the independent African state has done well by permitting export agriculture to flourish, and allowing foreign participation. The benefits of development can still be channelled toward the ruling elite, in these cases, but in a more "efficient" or "rational" manner from the standpoint of the functioning of the system as a whole.

The work of Robert Bates (1972, 1983) has provided excellent analysis and documentation of the political economy logic of agricultural pricing policies in Africa in a spirit that is entirely consistent, so far as I can see, with that of the approach taken here.

(iv) Latin America

Latin America presents the greatest variation in economic and political experience in the Third World, not only because of diversity in resource base and social structure, but because of its longer history of independence. Discussions of this experience have tended to identify three broad phases or stages in the development of most of the countries of the region. These are (i) An "oligarchic" phase of domination by a landowning elite, with an economic orientation geared to the export of land-intensive primary products to the world market. (ii) "Populism", a regime in which a charismatic leader such as Peron in Argentina or Vargas in Brazil adopts more nationalistic economic policies, stressing industrialization and import substitution, restrictive measures against the former "oligarchs", redistribution in favor of the "popular classes" and their incorporation into the political arena. (iii) "Bureaucratic-Authoritarianism", a term coined by the Argentine political scientist Guillermo O'Donnell, in which there is an alliance between the upper echelons of the military and civilian bureaucracy, foreign capital in the shape of multinational corporations and "advanced" sectors of domestic industry. This type of regime attempts to follow "liberal" economic policies in the macro economic sphere, though it is concerned with the continuation and indeed the further promotion to "deeper" levels of import substituting industrialization. Politically it is repressive and "exclusionary" towards mass participation, since this is regarded as disruptive of orderly progress.[10]

Again, it seems that our models are well adapted to embody the features of each of these different politico-economic "regimes". The technocratic bias and orientation of the bureaucracy is consistent with our "budget-maximizing" version of the autonomous state. The alliance between the bureaucracy and foreign and domestic capital emerges clearly in our Heckscher-Ohlin and "Australian" models. This last model is also able to capture the relationships between different interest groups -- the landowners, workers, "advanced" industry as represented by the capital-intensive manufacturing sector as distinct from labor-intensive industry, and of course the state itself. The model could also be adapted to handle differentiation within the primary sector, between large-scale land-intensive production of livestock say and subsistence production in a labor-intensive peasant sector. "Dualistic" societies such as Peru and Bolivia could be analyzed in corresponding terms.

(v) The Far Eastern NICs

The four Far Eastern NICs -- Korea, Taiwan, Singapore and Hong Kong have clearly been the star performers in the development field over the last two decades or more. It is therefore a question of particular importance as to what, if anything, the New Political Economy can contribute towards an understanding of the reasons for their success. In this connection it is not enough simply to point out that they have been just about the only group of LDCs to have made a systematic and sustained commitment to "outward orientation" in their economic policies. In fact the crucial political economy question is precisely why this is so.

Certainly the major theme of the present paper, the "relative autonomy" of the state, continues to hold in this case. By comparison with say India, or even Brazil, the state and its economic policy apparatus has been "insulated" from the pressures of lobbies and special interests in all four cases -- military dictatorships in two, a dominant-party state in another and British "guardians" in the case of Hong Kong. Thus the subsidies, transfers, regulations and bureaucratic proliferation that have shackled the Indian entrepreneurs have either been absent or channelled towards export performance. Except in the case of Hong Kong this has certainly not meant laissez faire, but it has meant the ability of the state to pursue a sustained strategy of export-led growth.[11]

But if Korean and KMT Chinese generals have succeeded because of the autonomy of the states that they have set up why not the Latin American juntas or the legion of African soldiers ranging in rank from field marshal to master sergeant that have taken over control of their societies? In the case of the African countries one could perhaps say that the levels of physical and social infrastructure are as yet inadequate for a policy of growth based on labor-intensive manufactured exports, and that the temptation to squeeze the natural resource-based export sectors is too strong. In Latin America the infrastructure is available in many cases but the military is itself too caught up in the complex antagonisms of civil society, which has a richer texture than in the Far Eastern cases, to follow a sustained path of export orientation. Chile is close to becoming the "exception that proves the rule" in this regard since the long period in which the Pincochet regime has been abie to function has enabled it to eventually embark on a successful economic course. It is very much to be hoped that the imminent restoration of democracy will not cause a setback in the development of the economy.

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1 The flavor of the New Political Economy research is perhaps best conveyed by the volumes of readings edited by Buchanan, Tollison and Tullock (1980), Collander (1984) and Stigler (1988). Analytical surveys of essential issues and results are provided by Bhagwati (1982), Srinivasan (1985) and Wellisz and Findlay (1988).

2 See her Introduction to Evans, Rueschmeyer and Skocpol, eds. (1985).

3 Discussions of the autonomy of the state from the Marxist perspective can be found in Miliband (1977) and Elster (1985), while Anderson (1974) is the most impressive application of the Marxist approach in a specific historical context, the "absolutist" states of early modern Europe. A stimulating and original conceptual analysis of the state is de Jasay (1985).

4 The subsequent discussion draws on Badie and Birnbaum (1983) and Poggi (1978).

5 The model presented here is a significant extension over an earlier version contained in Findlay and Wilson (1987), since the tax rate is now endogenous, with the labor supply an increasing function of the after-tax wage instead of being perfectly inelastic. The model draws on the insights into the "productive" character of the state contained in North (1981), chapter 3, on "A Neoclassical Theory of the State" and into its "predatory" aspect by Brennan and Buchanan (1980). The predatory nature of the state is also stressed in Lal (1985) and Tilly (1985). None of these authors however have attempted to embody their ideas in a formal general equilibrium model, even a very simple one such as is given here.

6 On modern Argentine economic history see the classic study of Diaz Alejandro (1970). A convenient summary of political developments in relation to the economic background is provided in chapter 3 of Skidmore and Smith (1984). The present effort at attempting to model this historical experience is also indebted to Lal (1986).

7 See Myrdal (1968). For a brief but incisive evaluation of Indian economic performance and policy see also Bhagwati (1987).

8 For a penetrating summary of African experience with respect to marketing boards see Bauer (1987).

9 See the chapter on the Ivory Coast in Dunn, ed. (1978).

10 See O'Donnell (1979), Collier, ed. (1979) and Evans (1979) for analyses of the role of the state in Latin American development.

11 See Findlay (1988) and references cited therein on the political economy of export-oriented growth.

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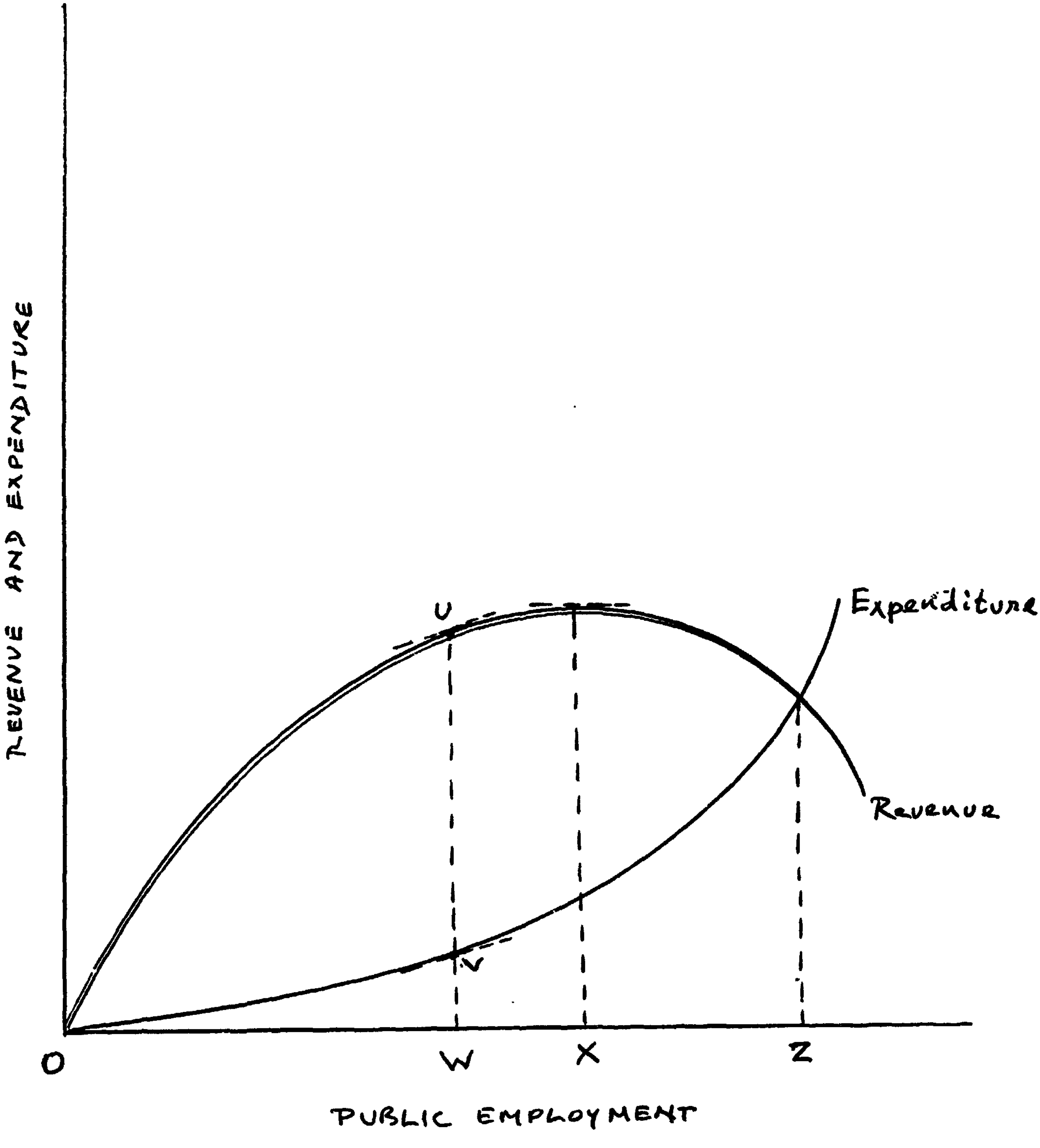
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FIGURE 1

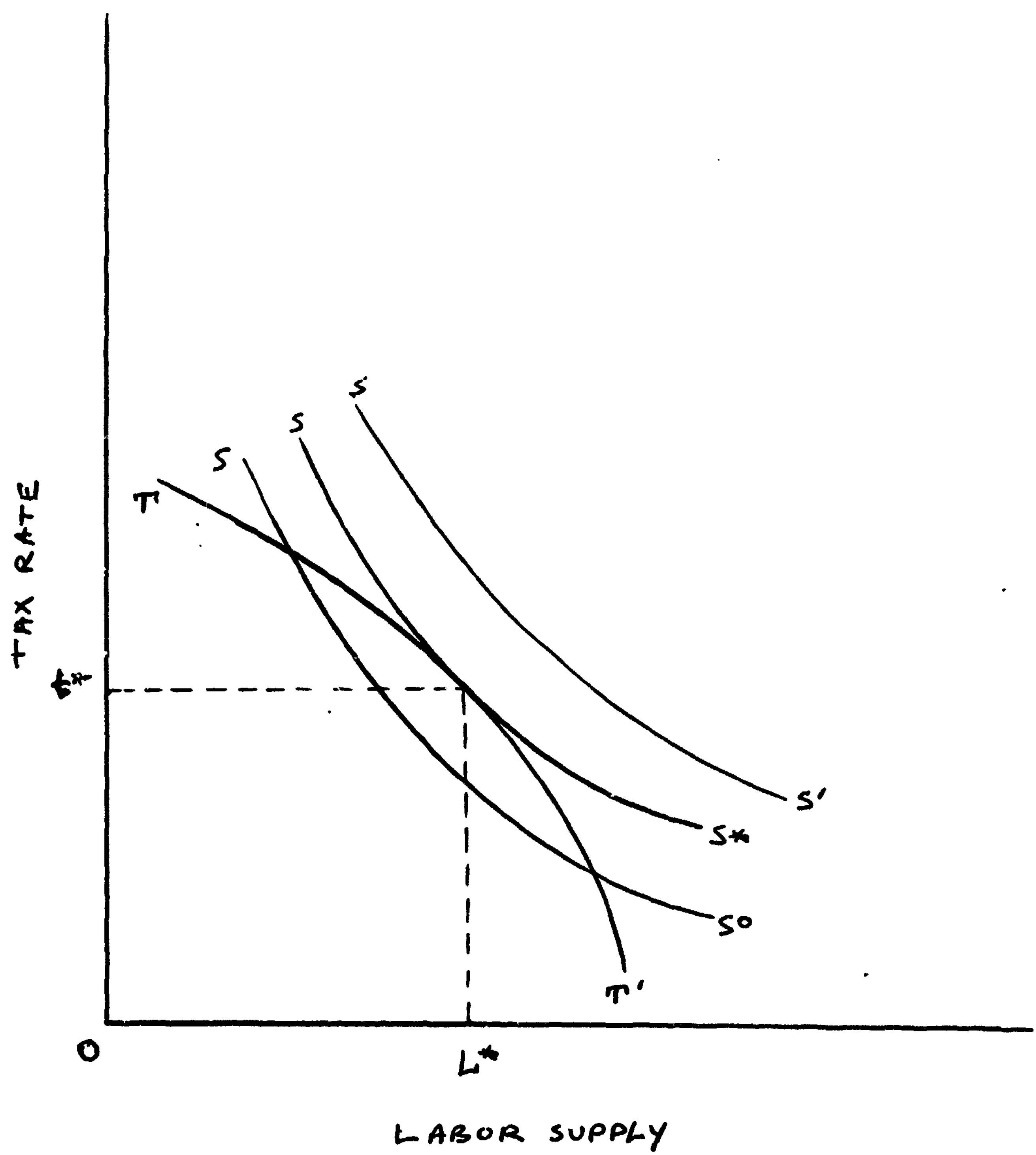

FIGURE 2

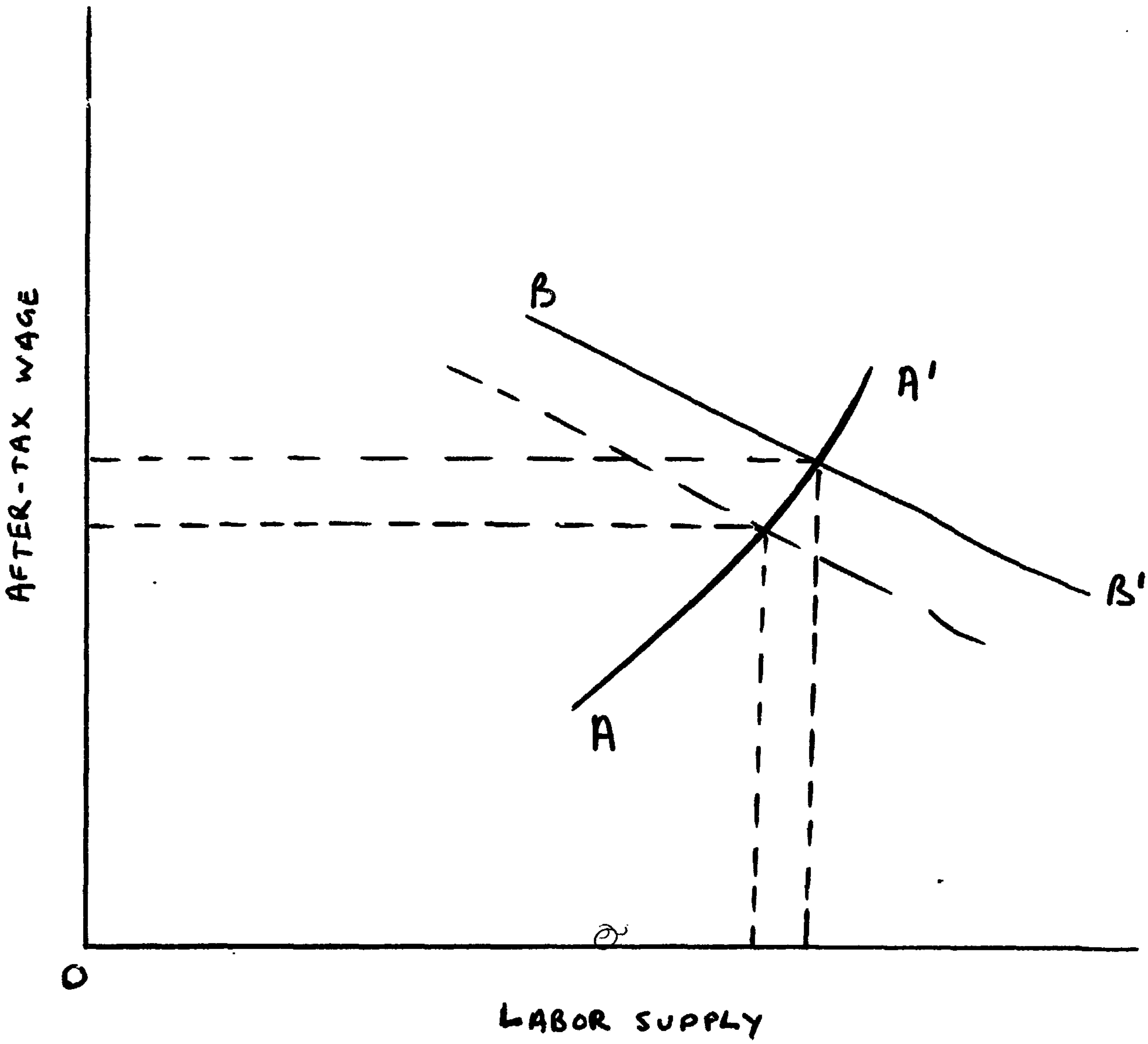

FIGURE 3

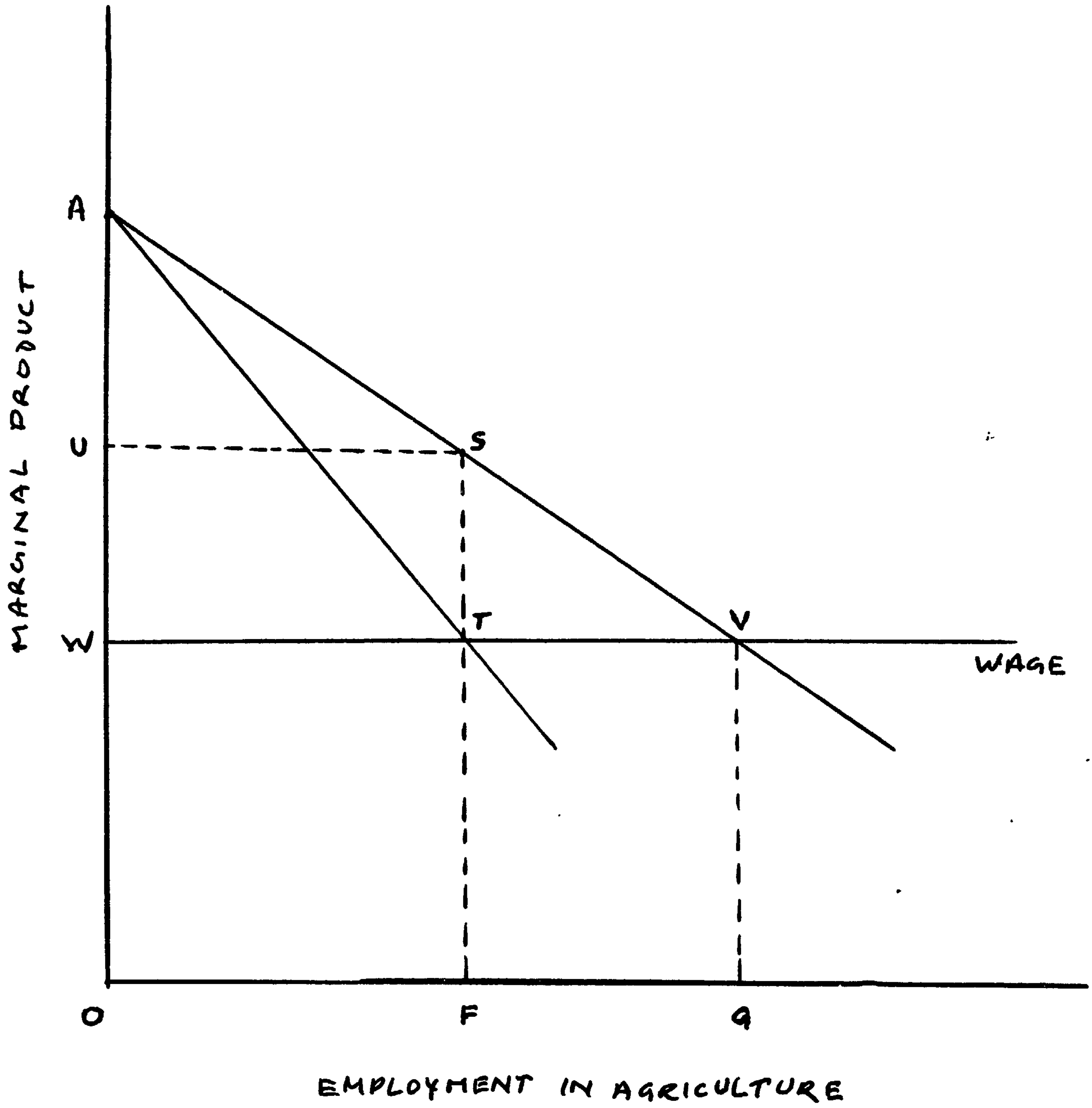
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FIGURE 4

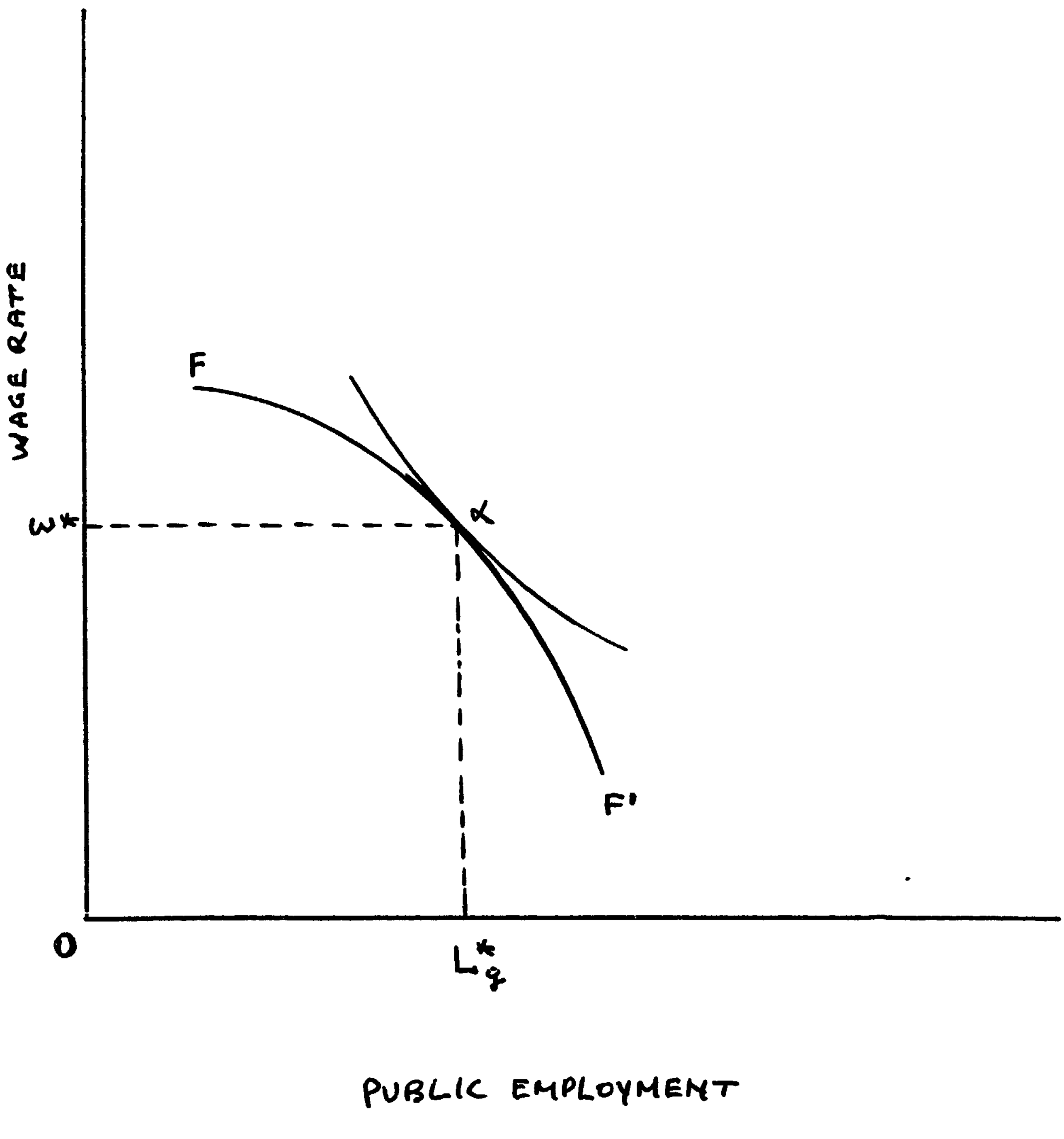

FIGURE 5

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